

Fiscal Note

Fiscal Services Division



HF 2468 – Revenue Department Miscellaneous Changes (LSB6087HV.1)
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Fiscal Note Version – As amended and passed by the Senate

Description

House File 2468, as amended and passed by the Senate, pertains to the tax and related laws of Iowa. The bill as passed by the House:

- Requires that the Department of Revenue subject job applicants, contractors, vendors, employees, and others performing work for the Department to a national criminal history check through the Federal Bureau of Investigation and requires the Department to provide fingerprints of the individuals to the Iowa Department of Public Safety. With the exception of job applicants, the requirements must be met at least once every 10 years. The bill also requires that the investigated individuals authorize the release of the results to the Department of Revenue. In addition, the bill specifies that the results of the investigation are not a public record and any cost is to be borne by the Department of Revenue. The change is effective on enactment.
- Specifies the procedure the Department of Revenue must use in instances where applications for the **Solar Energy System Tax Credit** exceed the total available credit amount for a year. The change is retroactive to January 1, 2014.
- Couples the Iowa Solar Energy System Tax Credit with the federal Internal Revenue Code (IRC) for tax years beyond tax year 2015. With the enactment of **HF 2433** (IRC Update and Manufacturing Consumables Tax Exemption Act of 2016), Iowa's tax code is generally coupled with the federal IRC, but only through tax year 2015. The Iowa tax credit is equal to a percentage of the federal credit. The federal credit expires after calendar year 2021. The change is retroactive to January 1, 2015.
- Modifies an existing sales tax exemption available for construction project contracts involving a designated exempt entity. Under current law, designated exempt entities generally include governmental entities and instrumentalities of state, federal, county, or municipal governments. The bill expands the definition of designated exempt entity to include the agent of an instrumentality of a county or municipal government if the instrumentality was created for the purpose of owning real property within a Reinvestment District established under Iowa Code chapter **15J**. The change is retroactive to January 1, 2015, and applies to purchases made on or after the date of enactment.
- Requires the Director of the Department of Revenue to consider evidence from both the taxpayer and the Department during a property tax appeal on the assessment of certain centrally assessed property. The provision is effective retroactively to May 22, 2015.
- Extends the Utility Replacement Task Force three years, to January 1, 2019. This provision is effective retroactively to January 1, 2016.
- Removes or modifies ownership restrictions for small solar projects eligible for Renewable Energy Tax Credits under Iowa Code section **476C.3(4)(b)(3)**. The change applies retroactively to January 1, 2015, and to applications for the tax credit made on or after June 26, 2015.
- Notwithstanding deadlines for Solar Energy System Tax Credits for applications where a specific set of temporal circumstances apply. The change is effective on enactment.

The Senate amendment, [H-8307](#):

- Creates a new Geothermal Tax Credit. The income tax credit is equal to 10.0% of qualified geothermal heat pump installation expenditures. The new credit is available for residential installations. The tax credit is not refundable or transferable but unused amounts may be carried forward for up to 10 tax years. The tax credit is first available for calendar year 2017. A taxpayer claiming the new Geothermal Tax Credit may not also claim the existing Geothermal Heat Pump Tax Credit available under [Iowa Code section 422.11I](#) for the same installation.
- Extends by one year the date a project receiving tax credits under the [Renewable Energy Tax Credit Program](#) must begin operations, from January 1, 2017, to January 1, 2018, and correspondingly extends the final year the tax credits are available, from 2026 to 2027. This change applies retroactively to January 1, 2016.

Background

Solar Energy Tax Credit Coupling

Iowa has coupled with the federal IRC through tax year 2015. The Iowa Solar Energy Tax Credit is a percentage of the federal solar tax credit. The federal government has made changes to their credit and extended it through at least tax year 2021. Iowa law is currently not coupled with the tax credit extension.

Sales Tax Exemption

Construction contracts for buildings constructed for governmental entities and the instrumentalities of governmental entities are generally eligible for a sales tax refund under Iowa Code section [423.4\(1\)](#). To be eligible for the sales tax refund, the purchased property must become an integral part of the building and upon completion, the project must become public property. While the refund provision includes instrumentalities of governments, the refund language does not mention specifically the agents of instrumentalities.

Under current law, Iowa Code section [423.3\(80\)](#) provides a sales tax exemption for the purchase of materials by contractors for the construction of a building for a designated exempt entity. That section adopts by reference the same definition for designated exempt entity as is used in the sales tax refund provision discussed in the above paragraph. The change contained in the bill keeps the existing definition of a designated exempt entity eligible for the sales tax exemption, and adds the agent of an instrumentality of a county or municipal government, but only in certain circumstances related to a Reinvestment District.

Small Solar Projects

To qualify for an existing Renewable Energy Tax Credit reserved for small solar projects, a solar energy project must have a nameplate generating capacity of 1.5 megawatts or less and be owned by an electric cooperative association, municipally-owned city utility, or a rate-regulated public utility. The project must also meet the eligible renewable energy facility definitional requirements of Iowa Code section [476C.1\(6\)](#). The change in the bill removes some of the small solar project ownership restrictions associated with the definition of an eligible renewable energy facility.

Current statute allows a total of 10.0 megawatts of projects to be approved for tax credits under the small solar project portion of the Renewable Energy Tax Credit Program. The Iowa Utilities Board tax credit project application tracking system indicates that applications have been received for 9.5 megawatts of the totaled allowed 10.0 megawatts. It is assumed that one or two of these projects totaling no more than 3.0 megawatts do not meet the current ownership requirements and those projects will not be approved for tax credits in their current form. The deadline for a project to become operational and therefore eligible to earn Renewable Energy Tax Credits going forward is January 1, 2017.

Geothermal Heat Pump Tax Credit (Senate amendment)

Iowa currently has a Geothermal Heat Pump Tax Credit equal to 20.0% of an existing federal heat pump installation credit. The federal credit is equal to 30.0% of installation costs so the current Iowa credit equals 6.0% of installation costs. Combined, the state and federal tax incentives under existing law equal 36.0% of installation costs.

The federal credit is set to expire at the end of calendar year 2016. If the federal tax credit is extended to calendar year 2017 and beyond, the incentives will total 40.0% under the provisions of this bill. If the federal credit is not extended, the total tax incentive available in Iowa will fall to 10.0% under this bill, and to 0.0% without the bill.

Renewable Energy Tax Credit Deadline (Senate amendment)

To qualify for Iowa's Renewable Energy Tax Credit (wind energy and renewable energy projects other than wind), the project must be placed in service by January 1, 2017. If that deadline is missed, the project is not eligible for the tax credit and tax credits will expire unused.

Assumptions

- An analysis by the Department of Revenue and the Office of Attorney General has concluded that the impacted projects within Reinvestment Zones qualify for an existing sales tax refund process and that the change in the bill making those projects also eligible for a sales tax exemption does not provide any additional financial benefit to the projects. If there is no financial benefit to the project, then there is no fiscal impact to state revenue.
- The provision notwithstanding application deadlines under the Solar Energy System Tax Credit Program has a fiscal impact as it makes applicants that are not eligible for tax credits under existing law newly eligible. However, the applications will become part of the limited tax credit that is extended in Section 3 of this bill and therefore the fiscal impact of this provision is included within the fiscal impact of section 3 of the bill.
- Iowans claimed an average of \$2.0 million in Geothermal Heat Pump Tax Credits from tax year 2012 through tax year 2014. At an effective credit rate of 6.0% of installation costs, the annual installation cost averages \$33.3 million per year. For this estimate, the federal tax incentive is assumed to expire at the end of calendar year 2016. Expiration of the federal credit will reduce the combined state and federal income tax incentive from the current level of 36.0% of installation costs to 10.0%. This incentive reduction is assumed to reduce the attractiveness of residential geothermal installations and for this estimate, installations are assumed to equal 70.0% of the annual \$33.3 million in installation costs, or \$23.3 million. Installation costs beyond calendar year 2017 are assumed to increase 2.2% each year. As a nonrefundable, nontransferable tax credit, each year's tax credits will be redeemed through tax return filing over several tax years. The assumed redemption pattern is:
 - Year 1 = 66.0%
 - Year 2 = 17.0%
 - Year 3 = 5.0%
 - Years 4 through 6 = 4.0%

Tax credits for calendar year 2017 installations are assumed to first impact the General Fund in FY 2018.

Fiscal Impact

The bill as passed by the House

The provision coupling the Iowa Solar Energy Tax System Credit with the federal IRC for tax years beyond 2015, will extend Iowa's credit through the 2021 federal expiration date. Without this coupling provision, the Iowa credit will not be available for tax years after 2015. The fiscal impact of this change will reduce projected General Fund revenue as listed below:

- FY 2018 = \$2.5 million
- FY 2019 = \$3.5 million
- FY 2020 = \$3.8 million
- FY 2021 = \$4.0 million
- FY 2022 = \$4.1 million
- FY 2022 through FY 2032 in total = \$12.0 million

The provisions expanding a sales tax exemption for entities involved in projects within a Reinvestment District, is deemed to have no identifiable fiscal impact as the sales in question are assumed to be eligible for a sales tax refund under current law.

Provisions extending the placed-in-service deadline for project eligibility under the Renewable Energy Tax Credit Program for one year, is deemed to have no fiscal impact as all projects on the Iowa Utilities Board project list are assumed by the Department of Revenue to become operational under the existing placed-in-service January 1, 2017, deadline.

Provisions ownership requirements for tax credits available for small solar projects are assumed to have no identifiable fiscal impact as it is assumed by the Department of Revenue that even if projects on the current application list are found to be not eligible, new projects will be added to the list and will become operational by the January 1, 2017, deadline.

The remaining provisions of the bill as passed by the House do not have a significant fiscal impact.

Senate amendment - Additional Fiscal Impact

The placed-in-service deadline for the Renewable Energy Tax Credit is January 1, 2017. For the purposes of this fiscal estimate, the Department of Revenue assumes that all projects will become operational by the existing deadline, with or without the changes in the bill.

Redemptions of the new Geothermal Tax Credit are projected to reduce State General Fund revenue by the following amounts:

- FY 2018 = \$1.5 million
- FY 2019 = \$2.0 million
- FY 2020 = \$2.1 million
- FY 2021 = \$2.3 million
- FY 2022 = \$2.5 million
- FY 2023 and future years = \$2.6 million

As a nonrefundable tax credit, the Geothermal Tax Credit will also reduce the local option income surtax for schools by a projected \$48,500 for FY 2018, growing to \$80,600 for FY 2023 and after.

Should Congress extend the expiring federal geothermal tax credit, the combined tax credit available in Iowa will increase from the current 36.0% to 40.0% of installation costs. This is assumed to keep residential geothermal installations at the current annual level and this in turn will increase the above fiscal estimates by 42.9% (\$2.2 million General Fund impact in FY 2018, growing to \$3.7 million by FY 2023).

Sources

Iowa Department of Revenue
Iowa Attorney General
Iowa Utilities Board
Legislative Services Agency Analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
